



R E P U B L I C O F A L B A N I A
BANK OF ALBANIA
SUPERVISORY COUNCIL

REGULATION

On credit operation collaterals

Decision No. 107, Dated 24. 12. 2003

This regulation is issued in compliance with and implementing the Law No.8269, dated 23.12.1997 “On the Bank of Albania” (Article 16, point 1), and Law No. 8365, dated 02.07.1998 “On banks in the Republic of Albania” (Article 44).

Article 1

Purpose

1.1 The purpose of this regulation is to establish: collaterals on credits extended by the Bank of Albania to second-tier banks, risk control-related procedures in monetary policy operations and the definition and arrangement of this later ones.

1.2 Banks and branches of foreign banks operating in the Republic of Albania shall establish collaterals on the crediting operations of the Bank of Albania monetary policy pursuant to the provisions of this regulation.

1.3 The valuation of collaterals aims to safeguard the Bank of Albania against financial risk, increase operational efficiency and equality in operations.

Article 2

Definitions

The following terms used in the regulation shall have these meanings:

“**Initial margin**”, implies that the collateral required for transactions is equal to the amount of the credit extended to the bank plus the initial margin value.

The differentiation of initial margins shall be consistent with the bank’s exposure time on a particular transaction.

“**Adjusted credit**”, implies the amount following the application of the initial margin.

“**Haircut**” implies the deduction of a certain percentage from the market value of eligible securities depending on their residual maturity.

“**Margin call**” implies that if the adjusted market value of the pledged securities falls short of the established level, banks shall be called to deliver additional securities up to the required value of the collateral. Similarly, if the adjusted market value of the pledged securities exceeds the amount established by the bank plus the margin call, excess-underlying assets shall be returned to banks.

“**Valuation date**” implies the date when securities pledged as collateral shall be valued.

Article 3

Collaterals

According to this regulation, credits extended by the Bank of Albania to second-tier banks shall be guaranteed by government issued securities meeting the following eligibility criteria:

- a) They must be negotiable in the secondary market of securities;

- b) They must be transferable and deposited in a security deposit at the Bank of Albania until credit settlement;
- c) They must have a residual maturity of not less than 14 days, from the settlement day.

Article 4

Valuation

4.1 Valuation of eligible securities shall be effected using reference prices quoted in the recent treasury bills auctions.

4.2 Valuation of eligible securities shall be effected on a weekly basis if the securities used as underlying assets have a maturity of more than seven days.

4.3 Valuation of eligible securities shall be effected on a daily basis if securities used as underlying assets in overnight operations or in more than one operation.

Article 5

Risk-control measures

Risk control measures shall be applied to securities underlying monetary policy operations.

5.1 Initial margins shall be applied by adding a certain percentage to the credit amount required, and this shall establish the value of underlying securities. Two different initial margins shall be applied taking into account the Bank of Albania exposure time:

- a) a margin of 8 percent for overnight credits on the amount of the credit required;
- b) a margin of 10 percent for credits with an initial margin of more than one day on the amount of the credit required.

The amount obtained following the application of the initial margin shall be referred to as "adjusted credit".

5.2 Haircuts are applied by deducting a certain percentage from the market value of eligible securities. The following haircuts are applied according to their residual maturity:

- a) 3 percent to securities with a residual maturity of up to one year;
- b) 6 percent to securities with a residual maturity of over one year.

Article 6

Margin call

6.1 If - on the valuation date – the adjusted value of securities does not match the value of the adjusted credit, the Bank of Albania applies symmetric margin calls.

6.1.1 If the adjusted market value of the pledged securities falls short by more than 3 percent of the adjusted credit, banks shall be called to deliver additional securities, up to the required value of the collateral.

6.1.2 If the adjusted market value of the pledged securities exceeds by more than 3 percent of the adjusted credit, the Bank of Albania shall return excess assets to the bank, up to the required value of the collateral.

Article 7

Penalties

In the event of non-compliance by a second-tier bank with the procedures and requirements for access to the standing facilities or for conduct of open market operations, under the regulatory framework in force, the Bank of Albania shall impose the following sanctions:

- a) a fine on a collateral shortfall, determined on the basis of the open market operation maturity thereof and the Lombard credit interest rate plus 5 percent;
- b) administrative sanctions consistent with the Law “On banks in the Republic of Albania”.

In the event the credit is not settled in due time, the Bank of Albania is entitled to take under its ownership the collateral pledged, according to the agreement signed between the parties thereof.

Article 8

Notification

In the event of non-fulfillment of the collateral value in the second-tier banks operations with the Bank of Albania, the Monetary Operation Department shall notify the Banking Supervision Department thereof, which shall act pursuant to Article 44, Section 2, Law “On banks in the Republic of Albania”, and policies available in taking corrective measures.

Article 9

The regulation “On debt insurance assets”, approved by Supervisory Council of the Bank of Albania, Decision No.111, dated 10.08.1998, shall be abrogated.

This regulation was approved by the Supervisory Council of the Bank of Albania, Decision No. 107, dated 24.12. 2003 and shall become effective 15 days following publication in the Official Gazette of the Republic of Albania.

**Chairman of the Supervisory
Council**

Shkëlqim Cani